

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
GLOBAL EQUITY SUB-ASSET CLASS ALLOCATION RANGES**

September 10, 2007

This Policy is effective immediately upon adoption and supersedes all previous Global Equity Sub-Asset Class Allocation Ranges policies.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for determining the allocation of funds to the sub-asset classes within the Global Equity program. The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing allocations to sub-asset classes within the Global Equity program. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with allocations among sub-asset classes within the Global Equity program.

II. STRATEGIC OBJECTIVE

The Global Equity program (the "Program") shall be managed to accomplish the following:

- A. Enhance CalPERS' total return;
- B. [Hedge](#) against active (pre-retirement) liabilities; and
- C. Provide diversification to CalPERS' overall investment program.

III. RESPONSIBILITIES

- A. CalPERS' Investment Staff ("Staff") is responsible for the following:
 - 1. All aspects of portfolio allocation including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.

2. Reporting to the Committee as appropriate about the performance of the Program, including sub-asset class programs.
 3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies immediately and in writing to the Investment Committee. These reports shall include explanations of the violations and appropriate recommendations for corrective action.
 4. Recommending action concerning outside money management firms ("Managers") retained under contract to implement various investment strategies within the Program.
 5. Taking other action as deemed necessary to implement and adhere to the Policy.
- B. The General Pension Investment Consultant ("Consultant") is responsible for monitoring, evaluating, and reporting periodically to the Committee on the performance of the Program relative to its benchmarks and this and other pertinent policies.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The [benchmark](#) for the U.S. portion of the Global Equity program is the [CalPERS Custom Wilshire 2500 Index](#). The benchmark for the international portion of the Global Equity program is the [CalPERS FTSE All-World, ex-US, ex-Tobacco, Capitalization Weighted Index](#). The Global Equity program uses a variety of benchmarks which are deemed by the Committee to be relevant to each sub-asset category or program. The CalPERS Statement of Investment Policy for each specific sub-asset category or program identifies the pertinent benchmark or benchmarks for such category or program.

V. INVESTMENT APPROACHES AND PARAMETERS

SUB-ASSET CLASS ALLOCATIONS

The categories and ranges for global sub-asset classes shall be as follows:

Global Equity Sub-Asset Classes		
	Broad Ranges (CIO Authority)	Anticipated Range (SIO Authority)
Passive	50% - 100%	52% - 82%
Enhanced & Active	0% - 40%	10% - 30%
Alternatives (Corp Gov.; MDP; RMARS)	0% - 25%	5% - 21%

- A. There are three broad categories: [Passive](#), Active/Enhanced and Alternatives. The Alternatives category includes the Corporate Governance program, the Risk Managed Absolute Return Strategies (“RMARS”) program, and the Manager Development Program (“MDP”).
- B. The “Broad Ranges” provide Staff flexibility in seeking to maximize the return per unit of [risk](#) for Global Equity. The “Anticipated Ranges” are the most likely resulting allocations. The rationale behind the ranges is as follows:
1. **Passive:** Passive equity investment (e.g., indexation) is a suitable approach for deploying Global Equity capital in the absence of sufficient suitable opportunities to add value through active management. The passive allocation range is purposely broad because good opportunities for “alpha generation” do not present themselves in a consistent manner, and it is impossible to forecast when good opportunities may become available. The Global Equity allocation to passive equity investment may be expanded from the “Anticipated Range” of 52% to 82% to the “Broad Range” of 50% to 100% upon approval by the Chief Investment Officer.
 2. **Active/Enhanced:** The “Active/Enhanced” sub-asset class encompasses both [enhanced indexation](#) and active equity [managers](#). The availability of suitable managers for Active/Enhanced mandates varies widely depending on the type of mandate (which may be delineated along geographic, growth/value, or other factors). The Active/Enhanced allocation may be expanded from the Anticipated Range of 10% to 30% to the Broad Range of 0% to 40% upon approval by the Chief Investment Officer.

3. Alternatives: The Anticipated Range for Alternatives, which includes Corporate Governance, MDP, and RMARS, is set at 5% to 21%. The inherently non-traditional nature of these programs means that investment opportunities are frequently subject to capacity or [liquidity](#) limitations or other factors which call for a flexible approach to investment timing. The Anticipated Ranges for the three areas of Alternatives shall be as follows:

Global Equity Alternatives Allocation	
Alternative Category	Anticipated Range
Corporate Governance	2% - 8%
Manager Development Program (MDP)	1% - 5%
Risk Managed Absolute Return Strategies (RMARS) Program	2% - 8%

The allocation to any Alternatives category may be expanded beyond the Anticipated Range of such category (as set forth above) upon approval by the Committee.

4. The ranges are meant to allow Staff the flexibility to fund current Board approved programs to the extent that there are competitive opportunities consistent with CalPERS' RFP and contracting process. Staff will be making decisions based on a wide range of factors such as, but not limited to, the maturity, size and performance persistence of the manager, the prudence of the strategy, and the ability to successfully implement the transition.
- C. The range of geographic allocations between international and domestic securities is determined by the Committee. Each of the sub-asset classes within Global Equity incorporates investments in both domestic and international vehicles. Staff will use its best efforts to ensure compliance with applicable policy guidelines governing the allocation of Global Equity assets among domestic and international vehicles.

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS' Custodian.

VII. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS' Master Glossary of Terms.

Approved by the Policy Subcommittee: June 10, 2005

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